



presses. Harris, operating in Dover, New Hampshire, was known as a high volume producer of offset printing equipment, a lower quality system, and was the largest producer in the United States of webb offset presses. Each type of press uses a piece of equipment called a "folder" to cut and fold the continuous printed sheets into the final product. One type of folder used small pins to move the paper through the equipment that left small holes which required trimming.

In 1980, Loebach developed a new pinless folder for offset presses called a "diverter." Loebach assigned the rights to his diverter invention, as described in a pending patent application, to Motter. Subsequently, the patent, United States Patent Number 4,373,713 ("the '713 patent"), was issued to Motter in 1983.

During the same time, Harris began developing a new line of high-speed offset printing presses that required new folder equipment. Harris approached Motter to develop the necessary folders and signed a joint venture agreement for that purpose in 1983. During the next year, Motter developed a prototype with instructions from Harris to keep the price as low as possible. Despite Motter's efforts, it was not able to produce folders in Harris's price range. In February 1985, Motter and Harris signed a new agreement whereby Harris received a license to use Motter's

exclusive manufacturing rights to the folder and its component parts for a minimum royalty of \$65,000.00 for each folder Harris manufactured. The agreement was for a period of five years ending in October 1990. During the course of the agreement, Harris paid royalties to Motter on sixty-one folders for a total of \$4,303,216.00. Both Harris and Motter advertised the diverter mechanism as the essential element of the new folder. It was the first pinless folder for offset printers, and Harris soon became the industry leader in the sale of that type of folder.

Michael Loebach filed suit against Motter in April 1990 in the Middle District of Pennsylvania where the case was assigned to Judge Sylvia Rambo. His suit alleged that Motter gained the assignment of his patent for the diverter mechanism by misrepresentation and that the assignment failed for lack of consideration. He asked that a constructive trust be imposed on all of Motter's royalties and profits earned from the licensing agreement with Harris.

Following a trial on liability in July 1991, a jury returned a verdict in Loebach's favor. The court ordered rescission of the patent assignment, and initially awarded Loebach the entire amount, \$4,303,216.00, that Harris paid Motter for the right to

manufacture sixty-one folders.<sup>2</sup> Upon a motion for reconsideration from Motter, however, the court reviewed its damage calculation and, borrowing damage theories from patent infringement cases, held that the proper measure of Loebach's damages was either his lost profits or, a reasonable royalty. To determine an appropriate damage award, the court held a bench trial in April 1992 to allow the parties to present new evidence and argument on the damage issues.

Several months later, the court issued an opinion in which it determined that Loebach was entitled to a "reasonable royalty" of twenty-five percent of the foreseeable net profit to Motter on each folder sold in 1985. Using this formula, the court determined that the royalty payment should be \$13,625.00 per folder for a total of \$831,125.00 for all sixty-one folders eventually produced under the Harris-Motter agreement. Loebach appealed, and the district court's decision was affirmed by the Third Circuit in July 1993 without a reported opinion. See Loebach v. Motter Printing Press Co., 5 F.3d 1489 (3d Cir. 1993) (table).

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<sup>2</sup> The court held that Motter manufactured and sold the first eight folders under its "shop right" to use the diverter mechanism despite Loebach's patent, and accordingly, no damages were owed for that use.

Harris filed suit against Loebach in this court on December 1, 1992, seeking an injunction, a declaratory judgment, and money damages, alleging that since October, Loebach had been accusing Harris's customers of patent infringement.

In September 1993, Loebach filed counterclaims against Harris for patent infringement, violation of the Lanham Act, and conversion of his patented diverter mechanism. As to each claim, Loebach states that he is the owner of the '713 patent. He alleges that Harris is guilty of patent infringement because Harris "has for a long time past been and still is infringing those Letters Patent by making, selling, and using folders embodying the patented invention, and will continue to do so unless enjoined by this Court." He alleges that Harris has been in violation of the Lanham Act, 15 U.S.C.A. § 1125 (Supp. 1995), since March 1992 when Harris began to use promotional material and advertising that misrepresented the "nature, characteristics and qualities of Loebach's product" by claiming that the heart of their pinless folder was the "patented diverter." He argues that because Harris claims not to have used his invention since 1990, their advertising claim was false since it advertised the use of his patented diverter. Last, Loebach alleges that from October 1983 until the present "Harris converted to their own use the

manufacturing rights and technical information of Loebach relating to the design, manufacture, assembly, testing, installation and repair of certain pinless folders, the property of Loebach, as is more particularly described in [the Motter-Harris agreements of 1983 and 1985]." Harris moves for summary judgment on all of the counterclaims.

#### **STANDARD OF REVIEW**

Summary judgment is appropriate in a case involving a patent dispute, as in other civil cases, when there is no genuine issue as to any material fact and the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c); Nike Inc. v. Wolverine World Wide, Inc., 43 F.3d 644, 646 (Fed. Cir. 1994).

Where the nonmoving party bears the burden of proof, the moving party initially need allege only the lack of evidence to support the nonmoving party's case. Celotex Corp. v. Catrett, 477 U.S. 317, 325 (1986). The nonmoving party cannot rely on the pleadings alone to oppose summary judgment, but must come forward with properly supported facts to demonstrate that "the evidence is such that a reasonable jury could return a verdict for the nonmoving party." Anderson v. Liberty Lobby, Inc., 477 U.S. 242,

248 (1986). A "material fact" is one "that might affect the outcome of the suit under the governing law," and a genuine factual issue exists if "the evidence is such that a reasonable jury could return a verdict for the nonmoving party." Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248 (1986). When the facts are undisputed, the moving party can prevail only if it is entitled to judgment as a matter of law. Desmond v. Varrasso (In re Varrasso), 37 F.3d 760, 764 (1st Cir. 1994). I consider Harris's motion in light of the summary judgment standard.

## II. DISCUSSION

In analyzing Harris's summary judgment motion, I distinguish between claims based on conduct occurring prior to July 31, 1991, when Loebach regained legal title to the patent, and claims based on conduct occurring after Loebach regained title. As I explain in greater detail below, Loebach cannot base a claim for infringement or conversion on conduct that occurred before he regained legal title to the patent. However, he remains free to sue for infringement or conversion occurring after he regained legal title and neither res judicata nor the related doctrine of collateral estoppel prevents him from recovering on either claim. Finally, Harris's res judicata and collateral estoppel defenses

do not affect the validity of Loebach's Lanham Act claim.

**I. Claims Based on Conduct Occurring Prior to July 31, 1991**

**A. The Infringement Claim**

In Arachnid, Inc. v. Merit Industries, Inc., 939 F.2d 1574 (Fed. Cir. 1991), the court examined the issue of whether the plaintiff could recover "money damages for patent infringement occurring at a time when the plaintiff had a claim of ownership to the patented invention, but did not possess legal title to the patent." Id. at 1576. Arachnid held rights to all patents on inventions developed by another company, IDEA, or its employees. Id. When certain IDEA employees invented a microprocessor device, however, they assigned the patent to IDEA, rather than Arachnid. Id. Through litigation, Arachnid recovered its right to the patent in July 1987, and the patent was assigned to Arachnid in October 1987. Id.

In the meantime, IDEA had granted a nonexclusive license to a third company, Merit, to use the invention, and Merit manufactured and sold products incorporating the invention until June 1986. Id. Arachnid brought suit against Merit in March 1986 alleging infringement of its patent and seeking money damages. Id. at 1577. The claim was dismissed because IDEA, not Arachnid, was then the record owner of the patent. Id. Arachnid

amended the complaint in June 1989, after it received legal title to the patent from IDEA in October 1987, to again allege infringement. Id. The district court denied Merit's argument that Arachnid lacked standing to bring a claim for infringement that occurred when Arachnid did not hold legal title to the patent, directed the jury to find infringement, and awarded damages. Id.

On appeal, the Federal Circuit stated that "[t]he general rule is that one seeking to recover money damages for infringement of a United States patent (an action 'at law') must have held the legal title to the patent during the time of the infringement." Id. at 1579 (citing and quoting Crown Die & Tool Co. v. Nye Tool & Mach. Works., 261 U.S. 24, 40-41 (1923)).<sup>3</sup> The court rejected Arachnid's "'Back-to-the-Future' theory" that it always owned the patent under its agreement with IDEA, despite the wrongful assignment, and thus it was entitled to sue for infringement damages. Arachnid, 939 F.2d at 1579. Arachnid also asserted its equitable ownership of the patent as grounds for its claim. Id. The court held that Arachnid lacked standing to sue

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<sup>3</sup> The recognized exceptions to this general rule are inapplicable to the facts of this case. See, e.g., Arachnid, 939 F.2d at 1478 n.7; Abbott Labs. v. Diamedix Corp., 47 F.3d 1128, 1130-31 (Fed. Cir. 1995).

for damages for infringement that occurred before Arachnid held legal title to the patent.<sup>4</sup> Thus, Arachnid could not maintain its suit for infringement that occurred when it was not the legal title owner of the patent either before or after it was awarded legal title.

The facts and holding in Arachnid are indistinguishable from this case. It is undisputed that Loebach did not acquire legal title to the '713 patent until he won a favorable judgment in his suit against Motter in the Middle District of Pennsylvania on July 31, 1991. Under these circumstances, neither Loebach's equitable interest in the patent nor his common law interest in the invention, gave him a right to recover damages for infringements that occurred before he regained title to his patent. Therefore, Harris is entitled to summary judgment on Loebach's counterclaim for infringements that occurred prior to July 31, 1991.

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<sup>4</sup> The Arachnid court did not rule out a suit for equitable relief, such as rescission of an assignment or imposition of an assignment, during a period when a party holds only equitable title to a patent. Arachnid, 939 F.2d at 1580; see also University of Colo. Found. v. American Cyanamid, 880 F. Supp. 1387, 1396-97, modified on other grounds, 902 F. Supp. 221 (D. Colo. 1995).

## **B. The Conversion Claim**

Loebach similarly lacks the right to sue for conversion based on conduct that occurred before July 31, 1991. "Conversion is an intentional exercise of dominion or control over a chattel which so seriously interferes with the right of another to control it that the actor may justly be required to pay the other the full value of the chattel." Muzzy v. Rockingham County Trust Co., 113 N.H. 520, 523 (1973).<sup>5</sup> "An action for conversion is based on the defendant's exercise of dominion or control over goods which is inconsistent with the rights of the person entitled to immediate possession." Rinden v. Hicks, 119 N.H. 811, 813 (1979). "A mere equitable interest in personal property generally does not constitute a sufficient basis for the maintenance of an action for conversion." 18 Am Jur. 2d Conversion § 80 at 201 (1985); see also Kornegay v. Thompson, 278 S.E.2d 140 (Ga.App. 1981); Osborn v. Chandeysson Elec. Co., 248 S.W.2d 657 (Mo. 1952). Because Loebach lacked legal title to the patent until July 31, 1991, he cannot claim that Harris interfered with his legal right to the patented technology prior

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<sup>5</sup> I apply the substantive law of the forum state to Loebach's state law claims as the parties have not addressed the issue and I find no reason to choose the law of another state.

to that date. Thus, Harris is entitled to summary judgment on Loebach's conversion counterclaim to the extent that the counterclaim is based on Harris's conduct before July 31, 1991.

## **II. Claims Based on Conduct Occurring After July 31, 1991**

A jury in the Motter litigation determined that Motter had wrongfully acquired the assignment of the '713 patent. As a result, Judge Rambo rescinded the assignment of the patent and declared that "all rights and title to said patent shall now vest in Michael H. Loebach." Order, 90-CV-1089 (M.D. Pa. July 31, 1991). Later, Judge Rambo awarded Motter "damages derived from Motter's improper transfer of rights to his patented invention" that "occurred in Motter's 1985 royalty agreement with Harris, under which Loebach earned royalties on sixty-one PFF folders incorporating Loebach's invention." Order, No. 90-CV-1089 at 55 (M.D. Pa., Sept. 16, 1992). In light of Judge Rambo's ruling, Harris argues that res judicata and/or collateral estoppel bar Loebach from asserting any claims concerning the patent even if the claims concern different machines and are based on conduct that occurred after Loebach regained his patent rights. I disagree.

Res judicata, or claim preclusion, bars a party from relitigating claims when the following elements are met:

- (1) a final judgment on the merits in the earlier suit;
- (2) sufficient identity between the causes of action asserted in the earlier and later suits; and
- (3) sufficient identity between the parties in the two suits.

Apparel Art Int'l v. Amertex Enters., 48 F.3d 576, 583 (1st Cir. 1995); see also Grella v. Salem Five Cent Sav. Bank, 42 F.3d 26, 30 (1st Cir. 1994). Whether causes of action are sufficiently identical to meet the preclusion standard is determined by a "transactional approach," meaning that both actions share a "common nucleus of operative facts . . . that is identifiable as a transaction or series of related transactions." Apparel Art, 48 F.3d at 583-84.

Collateral estoppel bars relitigation of an issue if:

- (1) both "proceedings involved the same issue of law or fact";
- (2) "the parties actually litigated the issue in the [previous] proceeding"; (3) the court in the prior litigation "actually resolved the issue in a final and binding judgment"; and (4) "its resolution of that issue of law or fact was essential to its judgment (i.e. necessary to its holding)." Monarch Life Ins. Co. v. Ropes & Gray, 65 F.3d 973, 978 (1st Cir. 1995).

Judge Rambo rescinded the assignment of the '713 patent and awarded damages for Loebach's loss of use of the patent based on Motter's receipts from the sixty-one machines produced under the Harris-Motter agreement. Her rulings did not address or compensate Loebach for future infringements. Instead, her decisions left Loebach free to pursue claims for future infringements in subsequent litigation.<sup>6</sup> Neither res judicata nor collateral estoppel bar future claims that the court in the prior action intended to leave unresolved. Finally, neither doctrine affects Loebach's Lanham Act claim because that claim does not arise from the same nucleus of operative fact as was at issue in the Motter litigation.

### III. CONCLUSION

For the foregoing reasons, Harris's motion for summary judgment (document no. 51) is granted only as to Loebach's

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<sup>6</sup> To the extent that Harris qualifies as a bona fide purchaser for value of the rights it acquired in the '713 patent, it may be entitled to the continued use of the patent notwithstanding Judge Rambo's July 31, 1991 order. See, e.g., Filmtec Corp. v. Allied-Signal, Inc., 939 F.2d 1568, 1573 (Fed. Cir. 1991) ("it is well-established that when a legal title holder of a patent transfers his or her title to a third party purchaser for value without notice of an outstanding equitable claim or title, the purchaser takes the entire ownership of the patent, free of any prior equitable encumbrances"). I do not decide this issue because it has not been briefed by the parties.

counterclaims for infringement and conversion based on folders produced prior to July 31, 1991.

SO ORDERED.

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Paul Barbadoro  
United States District Judge

March 27, 1996

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